*Consolidated Financial Statements*

# SUNRISE INTERNATIONAL INC.

*September 30, 2003 and 2002*

Pennock Acheson Nielsen Devaney

**Pennock Acheson Nielsen Devaney**

**Pennock Acheson Nielsen Devaney**
**Chartered Accountants**

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# Auditors' Report

To the Shareholders of
**Sunrise International Inc.**

We have audited the consolidated balance sheets of **Sunrise International Inc.** as at September 30, 2003 and 2002 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Pennock Acheson Nielsen Devaney

Chartered Accountants

February 23, 2004

# SUNRISE INTERNATIONAL INC.
## Consolidated Balance Sheets
### As at September 30, 2003 and 2002

| | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Cash | $ - | $ 650,547 |
| Accounts receivable | 1,294,198 | 1,331,670 |
| Inventories | 1,010,226 | 1,264,041 |
| Prepaid expenses and deposits | 334,652 | 340,629 |
| Future income taxes (Note 12) | 204,000 | 130,000 |
| Assets designated for disposal (Note 4) | 7,560,812 | 1,108,616 |
| Notes receivable (Note 5) | - | 1,125,478 |
| | 10,403,888 | 5,950,981 |
| PROPERTIES HELD FOR DEVELOPMENT (Note 6) | 2,858,413 | 2,260,157 |
| RENTAL PROPERTIES (Note 7) | 2,778,509 | 2,912,216 |
| CAPITAL ASSETS (Note 8) | 19,116,603 | 20,093,867 |
| INVESTMENTS IN AND ADVANCES TO SIGNIFICANTLY INFLUENCED COMPANIES (Note 9) | 788,517 | 1,917,797 |
| FUTURE INCOME TAXES (Note 12) | 525,000 | 115,000 |
| GOODWILL (Note 10) | 393,568 | 393,568 |
| NOTES RECEIVABLE (Note 5) | - | 144,976 |
| | $ 36,864,498 | $ 33,788,562 |
| **LIABILITIES** | | |
| CURRENT | | |
| Bank indebtedness (Note 11) | $ 324,320 | $ - |
| Accounts payable and accrued liabilities | 3,271,557 | 1,912,115 |
| Income taxes payable | 29,904 | 206,738 |
| Estimated income taxes (Note 12) | 892,000 | 1,005,000 |
| Current portion of long-term debt (Note 11) | 544,456 | 1,763,395 |
| Mortgages on assets designated for disposal (Notes 4, 11) | 4,488,721 | - |
| Long-term demand loans and mortgages renewing within one year (Notes 3, 11) | 13,463,924 | - |
| | 23,014,882 | 4,887,248 |
| LONG-TERM DEBT (Note 11) | 1,299,898 | 15,038,844 |
| FUTURE INCOME TAXES (Note 12) | 1,289,000 | 1,570,000 |
| | 25,603,780 | 21,496,092 |
| CONTINGENCIES AND COMMITMENTS (Note 14) | | |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 13) | 12,087,776 | 12,087,776 |
| Contributed surplus | 91,610 | 91,610 |
| (Deficit) retained earnings | (918,668) | 113,084 |
| | 11,260,718 | 12,292,470 |
| | $ 36,864,498 | $ 33,788,562 |

APPROVED BY THE BOARD

............................................................ Director

............................................................ Director

# SUNRISE INTERNATIONAL INC.
## Consolidated Statements of Loss and Deficit
### Years Ended September 30, 2003 and 2002

| | 2003 | 2002 |
|---|---|---|
| INCOME | | |
| Sales | | |
| Tourism and hotels | $ 12,116,988 | $ 14,210,397 |
| Retail | 2,995,234 | 4,949,210 |
| Rental | 627,612 | 623,379 |
| Other | 91,672 | 100,366 |
| | 15,831,506 | 19,883,352 |
| EXPENSES | | |
| Cost of sales | | |
| Tourism and hotels | 1,474,012 | 1,758,821 |
| Retail | 1,979,638 | 3,778,662 |
| Rental | 117,933 | 90,710 |
| General and administrative expenses (Schedule) | 11,496,969 | 11,147,994 |
| Depreciation and amortization | 1,754,425 | 1,720,383 |
| Interest on long-term debt | 936,709 | 913,440 |
| | 17,759,686 | 19,410,010 |
| (LOSS) EARNINGS BEFORE THE FOLLOWING | (1,928,180) | 473,342 |
| OTHER INCOME (CHARGES) | | |
| Gain on disposal of capital assets, properties held for development and rental properties | 1,090,883 | 1,323,341 |
| Income (loss) from significantly influenced companies | 10,834 | (695,325) |
| | 1,101,717 | 628,016 |
| (LOSS) EARNINGS BEFORE UNDERNOTED | (826,463) | 1,101,358 |
| INCOME TAX RECOVERY (Note 12) | 662,335 | 38,230 |
| LOSS FROM DISCONTINUED OPERATIONS (Note 4) | (867,624) | (429,057) |
| **NET (LOSS) EARNINGS** | (1,031,752) | 710,531 |
| **RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR** | 113,084 | (597,447) |
| **(DEFICIT) RETAINED EARNINGS, END OF YEAR** | $ (918,668) | $ 113,084 |
| **BASIC AND DILUTED (LOSS) EARNINGS PER SHARE (Note 13)** | | |
| **From continuing operations** | $ (0.004) | $ 0.026 |
| **After discontinued operations** | $ (0.024) | $ 0.016 |

# SUNRISE INTERNATIONAL INC.
## Consolidated Statements of Cash Flows
### Years Ended September 30, 2003 and 2002

| | 2003 | 2002 |
|---|---|---|
| **NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:** | | |
| OPERATING | | |
| Net (loss) earnings | $ (1,031,752) | $ 710,531 |
| Items not affecting cash | | |
| Depreciation and amortization | 1,754,425 | 1,720,383 |
| Gain on disposal of capital assets, properties held for development and rental properties | (1,090,883) | (1,323,341) |
| Future income taxes (Note 12) | (561,000) | (420,000) |
| (Income) loss from significantly influenced companies | (10,834) | 695,325 |
| | (940,044) | 1,382,898 |
| Changes in non-cash working capital items (Note 15) | 1,392,863 | 1,149,439 |
| Cash provided by continuing operations | 452,819 | 2,532,337 |
| Non-cash items in loss from discontinued operations | 330,605 | 559,057 |
| | 783,424 | 3,091,394 |
| FINANCING | | |
| Proceeds from demand debt | 500,000 | - |
| Proceeds from long-term debt | 474,223 | 1,294,694 |
| Repayment of demand debt | (1,318,950) | (659,362) |
| Repayment of long-term debt | (1,244,492) | (1,102,572) |
| | (1,589,219) | (467,240) |
| INVESTING | | |
| Proceeds from disposal of capital assets | 2,705,665 | 903,256 |
| Proceeds from disposal of properties held for development | 375,000 | - |
| Dividends received from significantly influenced companies | 344,000 | 250,000 |
| Proceeds from disposal of rental properties | 260,650 | 2,405,465 |
| Purchase of capital assets | (1,842,855) | (3,512,071) |
| Purchase of properties held for development | (973,256) | (670,916) |
| Investment in and advances to significantly influenced companies and other investments | (777,903) | (400,404) |
| Business acquisition – net (Note 4) | (197,000) | - |
| Purchase of rental properties | (63,373) | (110,495) |
| Proceeds from notes and long-term receivables | - | 625,000 |
| Issue of notes receivable | - | (1,270,454) |
| | (169,072) | (1,780,619) |
| **NET CASH (OUTFLOW) INFLOW** | (974,867) | 843,535 |
| **CASH (BANK INDEBTEDNESS), BEGINNING OF YEAR** | 650,547 | (192,988) |
| **(BANK INDEBTEDNESS) CASH, END OF YEAR** | $ (324,320) | $ 650,547 |

1. **DESCRIPTION OF BUSINESS**

The Company is a holding company incorporated under the Business Corporations Act (Alberta). Its shares are traded on the TSX Venture Exchange.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company transactions have been eliminated. The wholly owned operating subsidiaries are:

Maligne Tours Ltd.
Thornton Court Hotel Limited Partnership
Terracana Ranch & Resort Ltd.
Hinton Food Services Ltd.
373568 Alberta Ltd.

The company owns a 55.67% interest in Thornton Court Hotel, a limited partnership. The accounts of the partnership have been included in the consolidated financial statements (see Note 4).

2. **ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

*Inventories*

Inventories are valued at the lower of cost and net realizable value.

*Properties Held for Development*

Properties held for development are recorded at cost which includes the original purchase price, acquisition costs, interest on debt specifically related to the acquisition of the land, property taxes, and where applicable, development costs. Properties held for development are written down to estimated net realizable value in the year in which management determines that a permanent decline in value has occurred.

*Rental Properties and Capital Assets*

The Company records rental properties and capital assets at cost. Amortization on these assets is provided using the following annual rates and methods:

| | |
|---|---|
| Rental buildings and condominiums | 4% declining-balance |
| Tourism and hotel buildings | 4% declining-balance |
| Retail buildings | 5% declining-balance |

## 2. ACCOUNTING POLICIES (Continued)

*Rental Properties and Capital Assets (continued)*

| | |
|---|---|
| Furniture and equipment | 10% - 30% declining-balance |
| Tourism marine vessels | 15% declining-balance |
| Vehicles and machinery | 30% declining-balance |
| Parking lots | 8% declining-balance |
| Signs | 25% declining-balance |

Assets identified as being on leased land are amortized on a straight-line basis over the terms of their respective lease.

The Company's land leases are within Jasper National Park and have various lease expiry dates between 2007 and 2022.

*Investments In and Advances to Significantly Influenced Companies and Other Investments*

Investments in companies in which the Company has significant influence are accounted for on the equity basis. Other investments are recorded at cost. Investments are written down when management has determined there has been a permanent decline in value.

*Goodwill*

The excess of cost of investments in subsidiaries over the fair value of the identifiable net assets acquired is recorded as goodwill. The value of goodwill of individual reporting units is assessed annually or when events occur which may indicate that there may have been impairment in the value. Goodwill is assessed by comparing the fair value of a reporting unit to the carrying value of its net assets. The amount by which the fair value of a reporting unit exceeds the carrying value of its net assets is the fair value of goodwill. This amount is compared to the carrying value of goodwill for the reporting unit and where carrying value exceeds fair value, the carrying value is written down to equal fair value. Fair value of a reporting unit is determined by reference to estimates of discounted cash flows or other methods such as reference to recent market transactions involving similar assets.

*Revenue Recognition*

Revenue is recognized using the following methods:

Tourism and hotels – as services are performed
Retail – at point of sale
Rental – over the term of the rental agreement

**2. ACCOUNTING POLICIES (Continued)**

*Income Taxes*

The Company uses the liability method to account for income taxes. Under this method, future tax benefits and obligations are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when these differences are expected to reverse. Future tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized.

*Use of Estimates*

The preparation of consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**3. CHANGES IN ACCOUNTING POLICIES**

Effective October 1, 2002, the company adopted the following recommendations of the Canadian Institute of Chartered Accountants:

*Long-Term Debt and Long-Term Demand Debt*

The Company has adopted Emerging Issues Committee Abstract entitled "Balance sheet classification of callable debt obligations and debt obligations expected to be refinanced" ("EIC-122"). EIC-122 requires debt obligations that, by their terms, are due on demand be classified as current liabilities in the balance sheet, even though liquidation of a portion of the obligation may not be expected to occur within one year. It also requires that where a long-term facility is scheduled to mature or be renewed within one year of the balance sheet date, the entire amount of the facility is to be classified as a current liability regardless of the fact that management may intend to refinance on a long-term basis. In accordance with EIC-122, the accounting treatment has not been applied retroactively, and the balance sheet as at September 30, 2002 has not be restated.

*Goodwill*

Section 3062 "Goodwill and Other Intangible Assets" requires that goodwill no longer be amortized to earnings. Rather, goodwill is assessed annually for impairment and any excess carrying value over fair value be written off against earnings as an impairment loss. As a result of this change, goodwill was not amortized during the year and an impairment loss of $70,625 has been included in the loss from discontinued operations. In accordance with section 3062, the accounting treatment has not been applied retroactively and the balance sheet at September 30, 2002 has not been restated.

## 4. BUSINESS ACQUISITIONS AND DISCONTINUED OPERATIONS

*Purchase of Thornton Court Hotel Limited Partnership*

Effective June 1, 2003, the Company purchased an additional 6.67% of the Thornton Court Hotel, a limited partnership for $197,000. The Company previously owned 49% of the partnership. The Company has accounted for the transaction using the purchase method and has included the results of operations since June 1, 2003 in these financial statements. The cost of this investment exceeded the net book value of the net assets acquired by $70,625 which was allocated to goodwill but was subsequently written-off due to impairment.

| | |
|---|---|
| Net assets acquired – at fair values: | |
| Current assets | $ 141,611 |
| Capital assets | 7,938,682 |
| Goodwill | 70,625 |
| Current liabilities assumed | (476,737) |
| Other liabilities assumed | (7,477,181) |
| Total purchase price | $ 197,000 |

*Discontinued Operations and Assets Designated for Disposal*

Due to management's re-focus on the tourism industry, the Thornton Court Hotel, located in downtown Edmonton, Alberta which catered to business travelers not tourists, was deemed a non-essential asset. Accordingly, in these financial statements this asset and it's operations are reflected as assets designated for disposal and discontinued operations. The operations of Thornton Court produced revenues of $3,100,000, pre-tax losses of $1,200,000 and after tax losses of $867,624 (2002 - $429,057).

Prior to September 30, 2003 the Company commenced negotiations with a third party for the sale of Thornton Court. Subsequent to the year-end on February 22, 2004 these negotiations and the sale of Thornton Court were completed. The Company realized gross proceeds of $10,400,000 resulting in an approximate gain of $1,200,000 and an increase in working capital of $4,900,000.

## 5. NOTES RECEIVABLE

| | 2003 | 2002 |
|---|---|---|
| Note receivable from a partnership in which the company is a 49% partner. The note is unsecured, non-interest bearing and is repayable on or before September 30, 2003. | $ - | $ 1,125,478 |
| Note receivable from a shareholder and director. The note is unsecured, has no specific terms of repayment and bears interest at prime + 1%. | - | 144,976 |
| | - | 1,270,454 |
| Less current portion | - | 1,125,478 |
| | $ - | $ 144,976 |

## 6. PROPERTIES HELD FOR DEVELOPMENT

| | 2003 | 2002 |
|---|---|---|
| Land and improvements | $ 1,271,567 | $ 1,165,195 |
| Leasehold interests in properties | 845,000 | 445,000 |
| Carrying costs | 741,846 | 649,962 |
| | $ 2,858,413 | $ 2,260,157 |

Leasehold interests in properties include land located within Jasper National Park held under various leases that expire in 2010 and 2011. Carrying costs capitalized in the current year included property taxes and development costs.

## 7. RENTAL PROPERTIES

| | 2003 | | | 2002 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | $ 446,668 | $ - | $ 446,668 | $ 446,668 |
| Buildings | 2,285,882 | 410,781 | 1,875,101 | 1,908,232 |
| Buildings and condominiums on leased land | 922,056 | 504,478 | 417,578 | 514,541 |
| Parking lots | 44,208 | 10,624 | 33,584 | 36,505 |
| Signs | 12,443 | 6,865 | 5,578 | 6,270 |
| | $ 3,711,257 | $ 932,748 | $ 2,778,509 | $2,912,216 |

Buildings on leased land are located within Jasper National Park on land held under various leases that expire between 2007 and 2022.

## 8. CAPITAL ASSETS

| | 2003 | | | 2002 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | $ 819,519 | $ - | $ 819,519 | $ 874,519 |
| Tourism and hotel buildings | 9,856,557 | 2,207,275 | 7,649,282 | 7,525,827 |
| Retail buildings | 1,454,713 | 549,287 | 905,426 | 1,314,249 |
| Furniture and equipment | 7,288,376 | 5,195,656 | 2,092,720 | 2,218,532 |
| Tourism marine vessels | 1,622,917 | 1,206,709 | 416,208 | 433,996 |
| Vehicles and machinery | 944,338 | 566,814 | 377,524 | 566,883 |
| Parking lots | 311,220 | 158,075 | 153,145 | 180,127 |
| Signs | 153,366 | 99,121 | 54,245 | 55,483 |
| | 22,451,006 | 9,982,937 | 12,468,069 | 13,169,616 |
| Assets on leased land | | | | |
| Tourism buildings | 10,384,522 | 3,898,417 | 6,486,105 | 6,751,942 |
| Parking lots | 122,874 | 52,598 | 70,276 | 75,306 |
| Swimming pool | 136,067 | 43,914 | 92,153 | 97,003 |
| | 10,643,463 | 3,994,929 | 6,648,534 | 6,924,251 |
| | $33,094,469 | $ 13,977,866 | $19,166,603 | $20,093,867 |

Included in capital assets is equipment with a cost of $194,808 (2002 - $204,000) and with accumulated amortization of $73,236 (2002 - $93,585) held under capital lease.

Assets on leased land are located within Jasper National Park on land held under various leases that expire between 2007 and 2022.

## 9. INVESTMENTS IN AND ADVANCES TO SIGNIFICANTLY INFLUENCED COMPANIES

| | 2002 | 2003 | | | | |
|---|---|---|---|---|---|---|
| | Net Book Value | Advances and Investments in (from) | Dividends and Income (loss) from | Acquisition of Control | Net Book Value | Ownership Percentage |
| *Significantly Influenced Companies:* | | | | | | |
| Thornton Court Hotel (a limited partnership) | $1,574,018 | $ - | $ - | $ (1,574,018) | $ - | 55.67% |
| TBS Transfer Ltd. | 75,322 | - | (756) | - | 74,566 | 50% |
| Thomas Bus Sales (1990) Ltd. | 7,178 | 296,110 | (288,222) | - | 15,066 | 50% |
| Hinton Food Services Ltd. | (107,479) | 107,479 | - | - | - | 100% |
| Christmas in the Rockies (a partnership) | 107,352 | (109,864) | 2,512 | - | - | 50% |
| Maligne Rafting Adventures Ltd. | 80,966 | (20,000) | 2,991 | - | 63,957 | 50% |
| Rocky Mountain Christmas Ltd. | 46,689 | 4,766 | (49,690) | - | 1,765 | 50% |
| Bridgeton Properties Inc. | 104,175 | 16,856 | - | - | 121,031 | 33% |
| 1018465Alberta Ltd. o/a Marmot Basin Ski Hill | - | 482,556 | - | - | 482,556 | 6.88% |
| | 1,888,221 | 777,903 | (333,165) | (1,574,018) | 758,941 | |
| *Other investments* | 29,576 | - | - | - | 29,576 | |
| | $1,917,797 | $ 777,903 | $ (333,165) | $ (1,574,018) | $788,517 | |

During the year, the Company purchased an additional 6.67% of the Thornton Court Hotel thereby acquiring control (see Note 4). As disclosed in Note 4 this investment is recorded as an asset designated for disposal and accordingly is no longer classified as investment in significantly influenced companies.

The Christmas in the Rockies partnership was wound-up during the year.

Advances to significantly influenced companies are non-interest bearing and have no specific terms of repayment.

Investments do not have a quoted market value.

## 10. GOODWILL

| | | 2003 | | 2002 |
|---|---|---|---|---|
| Cost | $ | 785,625 | $ | 715,000 |
| Accumulated amortization | | (392,057) | | (321,432) |
| | $ | 393,568 | $ | 393,568 |

During the year the company purchased $70,625 of goodwill. Based on fair value assessments, management recognized an impairment loss equal to the goodwill purchased during the year. The impairment loss has been included in the loss from discontinued operations.

## 11. LONG-TERM DEBT

| | | 2003 | | 2002 |
|---|---|---|---|---|
| *Mortgages* | | | | |
| Mortgage bearing interest at prime plus 2.5%, repayable in monthly payments of $6,650 plus interest and maturing November, 2015. The mortgage is secured by a first mortgage on specific land and buildings and a general security agreement providing a first security interest in all property of a subsidiary, including a specific first charge on furniture and equipment. | $ | 970,900 | $ | 1,000,000 |
| Mortgage bearing interest at prime plus 1.55%, maturing in 2010, repayable in blended monthly payments of $5,000. The mortgage is secured by specific rental properties. | | 301,699 | | 349,479 |
| Mortgage bearing interest at 8%, interest only repayable monthly, maturing December, 2003. The mortgage is secured by a first mortgage over specific leasehold interests on land in Jasper National Park. | | 300,000 | | - |
| *The following mortgages have long-term amortization periods but are due for renewal within the coming fiscal year. It is management's intention to renew these mortgages under similar terms.* | | | | |
| Mortgage bearing interest at prime plus 1%, repayable in blended monthly payments of $108,551, maturing in July, 2004. The mortgage is secured by first mortgages on certain land and buildings, an unlimited corporate guarantee, a general security agreement granting a floating charge over specific land, buildings, furniture and equipment, condominiums, and an assignment of rents. | | 8,521,286 | | 9,317,017 |

## 11. LONG-TERM DEBT (Continued)

| | 2003 | 2002 |
|---|---|---|
| Mortgage bearing interest at 5.99%, repayable in monthly blended payments of $704, maturing in April, 2004, secured by a first mortgage on rental property. | **95,304** | 99,181 |
| | **8,616,590** | 9,416,198 |
| *The following mortgages related to assets designated for disposal:* | | |
| Mortgage bearing interest at prime plus 1%, repayable in blended monthly payments of $27,119, maturing in February, 2006. The mortgage is secured by a first mortgage on a specific hotel property. | **2,741,339** | - |
| Mortgage bearing interest at prime plus 1.25%, repayable in blended monthly payments of $16,206, maturing in June, 2006. The mortgage is secured by a first mortgage on a specific hotel property. | **1,747,382** | - |
| | **4,488,721** | - |
| ***Term Loan*** | | |
| Term loan bearing interest at prime plus 3%, repayable in monthly payments of $2,605 plus interest, maturing January, 2008 and secured by specific charges against furniture and equipment. | **135,633** | 166,893 |
| ***Finance Contracts*** | | |
| Finance contracts bearing interest between 0% and 10.5%, repayable in blended monthly payments totaling $4,444 maturing between December, 2003 and March, 2006. Secured by specific vehicles. | **77,989** | 105,050 |
| ***Demand Loans*** | | |
| Demand bank loans bearing interest at rates of prime plus 1.75% to 2%, repayable in monthly payments totaling $84,700 including interest subject to annual loan renewal. | **4,847,334** | 5,666,284 |

Demand loans and operating line of credit are secured by demand debentures and general security agreements granting a fixed and floating charge over all assets of the Company and specific charges against certain properties held for development, rental properties, capital assets and assignment of rents and fire insurance proceeds covering all buildings, tourism marine vessels, furniture and equipment and inventories.

## 11. LONG-TERM DEBT (Continued)

| | 2003 | 2002 |
|---|---|---|
| *Capital Leases* Capital leases bearing interest of 6.4% to 9.86%, repayable in blended monthly payments totaling $3,937, maturing at various dates from June, 2004 to July, 2005. The leases are secured by specific equipment. | **58,133** | 98,335 |
| | **19,796,999** | 16,802,239 |
| Less mortgages on assets designated for disposal (see Note 4) | **4,488,721** | - |
| Less long-term demand debt and mortgages renewing within one year | **13,463,924** | - |
| Less current portion of long-term debt | **544,456** | 1,763,395 |
| | **$ 1,299,898** | $ 15,038,844 |

Principal repayments due in the next five years, assuming bank loans subject to annual renewal are refinanced under similar terms:

| | Long-Term Debt | Demand Debt | Mortgages Renewing Within One Year | Total |
|---|---|---|---|---|
| 2004 | $ 544,456 | $ 1,153,492 | $ 836,816 | **$ 2,534,764** |
| 2005 | 194,071 | 678,858 | 925,744 | **1,798,673** |
| 2006 | 167,653 | 534,708 | 975,932 | **1,678,293** |
| 2007 | 162,503 | 569,102 | 1,028,841 | **1,760,446** |
| 2008 | 145,036 | 605,707 | 1,084,618 | **1,835,361** |

In compliance with new accounting standards introduced by the Canadian Institute of Chartered Accountants under Emerging Issues Abstract 122 (see Note 3), the Company has classified demand debt and mortgages maturing within one year as current liabilities. The demand debt has repayment terms beyond the coming year and the lenders do not have a history of calling the debt.

## 12. INCOME TAXES

*Future Income Taxes*

Future income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets and liabilities as of September 30 are as follows:

| | 2003 | 2002 |
|---|---|---|
| Future tax assets: | | |
| Tax loss carry forwards | **$ 270,000** | $ 115,000 |
| Unallocated losses from partnership | **204,000** | 130,000 |
| Charitable donations carried forward | **255,000** | - |
| Total future tax assets | **729,000** | 245,000 |
| Future tax liabilities: | | |
| Capital assets in excess of tax values | **1,289,000** | 1,570,000 |
| Net future tax liabilities | **$ 560,000** | $ 1,325,000 |

**12. INCOME TAXES (Continued)**

At September 30, 2003 the Company has net operating losses for income tax purposes available to be carried forward in the amount of $794,000. These losses expire as follows: 2006 - $8,000; 2008 - $68,000; 2009 - $213,000; 2010 - $505,000. A future tax asset of $270,000 has been recognized in respect of these carry forwards. The Company also has a 55.67% interest in a partnership which at September 30, has $566,000 of undistributed losses which will be available to the Company in its next fiscal year. A future tax asset of $204,000 has been recognized in respect of these losses. The partnership interest was disposed of subsequent to year-end (see Note 4).

*Income Tax Expense*

Significant components of the provision for income taxes are as follows:

| | | 2003 | | 2002 |
|---|---|---|---|---|
| Current expense | $ | 11,665 | $ | 501;770 |
| Recovery of estimated taxes | | (113,000) | | (250,000) |
| | | (101,335) | | 253,772 |
| Future income taxes | | | | |
| Recovery relating to origination and reversal of taxable temporary differences | | (237,000) | | (210,000) |
| Recovery relating to the recognition of loss carry forwards | | (368,000) | | (318,000) |
| Expense relating to the use of previously recognized loss carry forwards | | 130,000 | | 378,000 |
| Recovery relating to changes in the statutory rates | | (35,000) | | (270,00 |
| Recovery relating to the recognition of un-used charitable donations | | (255,000) | | - |
| | | (765,000) | | (420,000) |
| Included in discontinued operations | | 204,000 | | 130,000 |
| Income tax recovery | $ | (561,000) | $ | (290,000) |

*Estimated Income Taxes*

Certain consolidated subsidiaries of the Company have taxation years that are different from the Company's year-end. Estimated income taxes of $892,000 (2002 - $1,005,000) represent the income tax calculated on the income of these subsidiaries from the date of their latest taxation year to September 30, which is included in these consolidated financial statements. Management estimates that $773,000 (2002 - $470,000) of these taxes will be shielded by losses that are expected to occur over the winter months. The subsidiaries' actual tax liabilities may differ.

The reconciliation of income tax attributable to current earnings computed at the statutory tax rates to income tax expense is as follows:

**12. INCOME TAXES (Continued)**

| | 2003 | 2002 |
|---|---|---|
| Income taxes based on the combined statutory Canadian federal and provincial income tax rates | $ (382,000) | $ 218,770 |
| Tax effect of deductible differences not previously recognized | (450,000) | (80,000) |
| Tax effect of partnership losses not previously recorded | - | (209,000) |
| Reduction in taxes resulting from statutory rate reductions | (35,000) | (270,000) |
| Non-taxable items included in accounting income | (90,000) | 79,000 |
| Large corporations tax | 69,000 | 70,000 |
| Other | 21,665 | 23,000 |
| | (866,335) | (168,230) |
| Included in discontinued operations | 204,000 | 130,000 |
| | $ (662,335) | $ (38,230) |

**13. SHARE CAPITAL**

| | 2003 | 2002 |
|---|---|---|
| Authorized | | |
| Unlimited Class A common shares | | |
| Unlimited Class B restricted, non-voting shares | | |
| 100,000,000 first preferred shares | | |
| 20,000,000 preferred, redeemable shares, redemption price to be determined upon issuance | | |
| Issued | | |
| 43,702,510 Class A common shares | $ 12,087,776 | $ 12,087,776 |

There have been no changes in the number of common shares outstanding during the year. There are no options or warrants outstanding at year end.

**14. CONTINGENCIES AND COMMITMENTS**

(i) The Company has issued letters of guarantees on behalf of companies over which it has significant influence in the aggregate amount of $139,450 as at September 30, 2003.

(ii) The Company has entered into long-term land lease commitments for land located in Jasper National Park which expire between 2007 and 2022. Land lease payments are based on the appraised value of the land determined every three years. Estimated lease payments for the next year are $192,000 under the current agreements.

(iii) The Company has entered into a long-term rental agreement for retail space in Jasper for $164,000 per year, which expires January 2007.

(iv) The Company is in breach of certain of its banking covenants at year-end. The related debt has been included in current liabilities.

## 15. SUNDRY CASH FLOW INFORMATION

| | 2003 | 2002 |
|---|---|---|
| Changes in non-cash working capital: | | |
| Accounts receivable | $ 109,442 | $ 782,895 |
| Inventories | 291,411 | 400,349 |
| Prepaid expenses and deposits | (3,978) | 186,675 |
| Accounts payable and accrued liabilities | 1,285,819 | 279,525 |
| Income taxes payable | (176,831) | (250,005) |
| Estimated income taxes | (113,000) | (250,000) |
| | $ 1,392,863 | $ 1,149,439 |
| Cash paid during the year for: | | |
| Interest | $ 1,211,738 | $ 1,103,915 |
| Income taxes | $ 188,499 | $ 751,775 |

## 16. FINANCIAL INSTRUMENTS

Financial instruments of the company consist of cash, accounts receivable, notes receivable, bank indebtedness, accounts payable and accrued liabilities and long-term debt.

*Interest Rate Risk*

Interest rate risk refers to the adverse consequences of interest rate changes on the Company's cash flows, financial position and income. The risk relates primarily to long-term debt issued at floating interest rates. Currently, $19,589,890 of the Company's debt is issued at floating interest rates. A 1% change in interest rates would change earnings before income taxes by $195,890.

*Credit Risk*

Credit risk arises from the potential that a counter-party will fail to perform its obligations. The Company is exposed to credit risk from customers. However, the Company has a large number of diverse customers, which minimizes concentration of credit risk.

*Fair Value*

Fair values approximate amounts at which these instruments could be exchanged in a current transaction between willing parties. Fair values are based on estimates using present value and other valuation techniques, that are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Therefore, due to their subjective and uncertain nature, fair value amount should not be interpreted as being realized in an immediate settlement of the instruments.

## 16. FINANCIAL INSTRUMENTS (Continued)

Current assets and liabilities are valued at their carrying values due to the relatively short period to maturity of these instruments. The fair value of notes receivable and investments in and advances to partnerships, significantly influenced companies and other investments are not determinable as these instruments lack an available trading market. The fair value of long-term debt is assumed to approximate carrying value as the existing rates represent the rates currently available to the Company and the majority of the debt is at interest rates that float with prevailing market rates.

## 17. RELATED PARTY TRANSACTIONS AND BALANCES

Significant transactions with related parties not disclosed elsewhere in these consolidated financial statements are as follows:

a. Transactions and balances with companies that are shareholders or corporations owned by shareholders of the Company:

| | 2003 | 2002 |
|---|---|---|
| Management fee expense (ii) | $ **206,500** | $ 192,000 |
| Capital assets purchased (ii) | **167,894** | 659,048 |
| Rent and lease expense (i) | **217,365** | 170,327 |
| Advertising fees expense (i) | **26,433** | 39,629 |
| Repair and maintenance expense (i) | **40,781** | 64,688 |
| Rental and retail revenue (i) | - | 163,603 |
| Travel expense (i) | - | 5,987 |
| Vehicle purchase (ii) | - | 12,304 |
| Interest expense (ii) | - | 6,339 |
| Balances in accounts receivable | **59,220** | 59,220 |

b. Transactions and balances with individuals who are shareholders of the Company, directors of the Company, or shareholders of companies over which the Company has significant influence (20% to 50% interest):

| | 2003 | 2002 |
|---|---|---|
| Vehicle lease expense (i) | $ **15,500** | $ 21,880 |
| Legal expense (i) | **7,127** | 7,808 |
| Advertising expense | **6,000** | - |
| Directors' fees expense (ii) | **6,000** | 6,000 |
| Capital assets sold (ii) | - | 217,465 |
| Balance in notes receivable | - | 144,976 |

## 17. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

c. Transactions and balances with a company controlled by an individual in the Company's management:

| | 2003 | 2002 |
|---|---|---|
| Retail revenue (i) | $ - | $ 18,266 |
| Management fee expense (ii) | - | 16,500 |

The above transactions have been recorded at:

(i) market rates; or
(ii) exchange rates as agreed between the related parties

The balances have normal terms and conditions.

## 18. SEGMENTED INFORMATION

The Company operates primarily in three industries – tourism and hotels, retail and rental. Tourism and hotel operations include providing recreational services at Maligne Lake in Jasper National Park, Alberta, and hotel accommodations in Jasper, Hinton, Spruce Grove and Stony Plain, Alberta as well as parts of eastern British Columbia. Retail operations comprise the marketing of a variety of goods in various locations throughout Alberta. Rental operations consist of renting commercial and residential properties in various locations in Alberta.

## 19. SEGMENTED INFORMATION (Continued)

| | Tourism and Hotels | | Retail | | Rental | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| INCOME | $ **12,208,660** | $ 14,240,043 | $ **2,995,234** | $ 4,991,320 | $ **627,612** | $ 651,989 | $ **15,831,506** | $ 19,883,352 |
| Cost of sales | **1,474,012** | 1,758,821 | **1,979,638** | 3,778,662 | **117,933** | 90,710 | **3,571,583** | 5,628,193 |
| General and administrative expenses | **8,246,923** | 8,743,016 | **1,327,056** | 992,259 | **292,689** | 287,123 | **9,866,668** | 10,022,398 |
| Depreciation and amortization | **1,324,402** | 1,272,237 | **174,598** | 196,323 | **255,425** | 251,823 | **1,754,425** | 1,720,383 |
| Interest on long-term debt | **913,658** | 890,148 | **23,051** | 23,292 | **-** | - | **936,709** | 913,440 |
| SEGMENTED (LOSS) EARNINGS FROM OPERATIONS | $ **249,665** | $ 1,575,821 | $ **(509,109)** | $ 784 | $ **(38,435)** | $ 22,333 | $ **(297,879)** | $ 1,598,938 |
| Gain on sale of capital assets, properties held for development and rental properties | | | | | | | **1,090,883** | 1,323,341 |
| Income (loss) from significantly influenced companies | | | | | | | **10,834** | (1,254,382) |
| Loss from discontinued operations | | | | | | | **(867,624)** | - |
| General corporate expenses | | | | | | | **(1,630,301)** | (1,125,596) |
| Income taxes | | | | | | | **662,335** | 168,230 |
| NET (LOSS) EARNINGS | | | | | | | $ **(1,031,752)** | $ 710,531 |
| Identifiable segment assets | $ **19,856,637** | $ 18,494,352 | $ **2,132,996** | $ 4,284,436 | $ **3,187,008** | $ 4,452,751 | $ **25,176,641** | $ 27,231,539 |
| Corporate assets | | | | | | | **3,338,530** | 3,530,610 |
| Assets designated for disposal | | | | | | | **7,560,812** | 1,108,616 |
| Investments in and advances to significantly influenced companies and other investments | | | | | | | **788,515** | 1,917,797 |
| TOTAL ASSETS | | | | | | | $ **36,864,498** | $ 33,788,562 |
| Identifiable segment capital expenditures | $ **1,819,720** | $ 2,910,357 | $ **48,824** | $ 321,502 | $ **37,684** | $ 390,707 | $ **1,906,228** | $ 3,622,566 |
| Corporate capital expenditures | | | | | | | **973,256** | 670,916 |
| TOTAL CAPITAL EXPENDITURES | | | | | | | $ **2,879,484** | $ 4,293,482 |

# SUNRISE INTERNATIONAL INC.
## Schedule of General and Administrative Expenses
### Years Ended September 30, 2003 and 2002

| | 2003 | 2002 |
|---|---|---|
| Salaries, wages and benefits | $ 4,768,661 | $ 5,109,673 |
| Utilities | 937,484 | 685,013 |
| Community donations in kind | 745,000 | - |
| Advertising and promotion | 653,613 | 716,187 |
| Repairs and maintenance | 607,972 | 973,457 |
| Operating supplies | 487,817 | 527,487 |
| Vehicle | 460,267 | 507,486 |
| Property taxes | 381,433 | 365,171 |
| Rent and lease | 378,854 | 304,536 |
| Insurance | 374,982 | 311,650 |
| Operating interest | 323,132 | 250,248 |
| Credit card commissions | 299,715 | 333,335 |
| Office | 294,105 | 279,466 |
| Professional fees | 259,240 | 376,083 |
| Franchise fees | 194,404 | 112,863 |
| Management fees | 184,000 | 214,500 |
| Subcontractors | 140,309 | 124,215 |
| Bad debts (recovery) | 5,981 | (43,376) |
| | $ 11,496,969 | $ 11,147,994 |